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ABSTRACT

Excessive unemployment, serious deficiencies in education, housing, welfare, transportation, and government systems are major problems in West Virginia. A historical contributor to the present condition is the decline of the coal industry. Also a contributor is the general apathy of the citizens toward change and economic progress. The state's basic social and economic infrastructures, consequently, are sub-par to national norms. Economic expansion can be realized if (1) the national economy continues to grow, (2) the Federal regional programs and the Appalachian Regional Development Program proceed as scheduled, and (3) the state legislature authorizes public expenditure programs adequate to support the projected expansion of the private sector; however, this prediction for economic expansion rests upon the application of qualitatively and quantitatively adequate public expenditures. The document provides an analysis of factors producing West Virginia's economic situation in 1968, suggestions for governmental action and a government expenditures policy, and discussions of expenditure areas such as the educational system, public welfare system, health, industry, and the transportation system. (JB)

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ECONOMIC DEVELOPMENT IN WEST VIRGINIA

by

Frederick A. Zeller
Director, Office of Research and Development

and

Wil J. Smith
Assistant Research Professor
Office of Research and Development

Information Series 6

Office of Research and Development
Appalachian Center
West Virginia University

PREFACE

West Virginia University's Appalachian Center is dedicated to bringing knowledge needed for effective decision-making to those who plan and work for the betterment of the State and the Appalachian Region of which the State is a part. The need for knowledge is great — especially the concentration of knowledge in the social and physical sciences. Moreover, the needed information spans a number of methodologies, for its generation-known principles must be collected and applied, and in other instances, use must be made of empirical investigations.

The most important function of the Appalachian Center's Office of Research and Development is to produce knowledge that is vital for rational social and economic decisions because of its value for leadership audiences in the State and the Region, and the Center's staff of programmers and field educators located on the University's Campus and throughout West Virginia's counties. The Office of Research and Development, in fulfillment of this purpose, supports a variety of research conducted both by its own staff and other component of West Virginia University.

This paper analyzes the factors producing the present economic situation of West Virginia, describing how this situation developed and defining the major problem areas faced by the State. It also recommends alternate plans which could be followed by the State's government to improve economic and social life.

FREDERICK A. ZELLER, Director
Office of Research and Development
Appalachian Center
West Virginia University
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I. INTRODUCTION

Economic growth in West Virginia has been slower than for many other states in the United States and in the Applachian Region. For example, the State's current unemployment rate of about 6.0% is over 50% above the national average of 3.8% and the unemployment rates of the more rural counties of the State such as McDowell, Mingo and Logan are two or three times as high as the State average.[1] In addition to excessive unemployment, per capita income in West Virginia is quite low.[2] While the State ranked 39th among all states in per capita income in 1948, by 1967 it had fallen to 46th with a per capita income of only $2,195. Only the southern states of Alabama, Arkansas, Mississippi and South Carolina presently have lower per capita incomes.[3] This does not consider the lack of industrial diversification and the State's over-dependency on a few pivotal, cyclically-sensitive industries or the lack of employment opportunity in a slowly-growing service sector.

This lack of rapid growth for West Virginia during a period of economic expansion for the nation gives raise to real concern for the State's future economic welfare.

As a result of the economic difficulties noted above, West Virginia faces a number of critical problems. The more prominent of these are the serious deficiencies in education, housing, welfare, transportation, and government systems. These and other related problems combine to make West Virginia relatively unattractive to private investors and, thus, without effective action to solve these problems, the economic future is not bright.

This paper analyzes the factors producing the present economic condition of the State, and suggests alternative actions which might be taken by the State's Government to accelerate West Virginia's social and economic development.

II. Analysis

Following the near-collapse, largely attributable to the somewhat unexpected and sharp decline of the coal industry, of West Virginia's economy in the early 1950's, the State entered a long period of economic depression not unlike that of the 1930's. Only in the early 1960's did any kind of noticeable recovery begin. However, even now, the State is not a full participant in the longest and most rapid national expansion in the recent history of the United States. Indeed, many areas within the State are still economically depressed. Economic growth has occurred largely in the urban areas, while the major portion of the population of the State resides in the rural or semi-rural areas. Throughout this period of serious economic decline, with high unemployment of the labor force, low incomes, a shrinking tax base and resulting lack of tax revenue, parts of the State's basic social and economic infrastructures — roads, government, health and welfare services, schools, etc. — were barely maintained and other parts deteriorated.' With improvement in the State's economy, certain measurable upgrading has taken place in the social and economic infra-structures, although our basic systems are still sub-par relative to national norms.

However, the decade of the fifties and early sixties generated only a part of the problems associated with the present economic condition. The roots of the State's present problems reach much deeper into history.

It is now evident that the State's economic decline began in earnest in 1951. But prior to that, the war years from 1942 to 1947 prevented many critically needed public investments. And before the war years, extending back to and including the decade of the 1930's, Great Depression crises precluded many worthwhile expenditures on public projects and social improvements.

Thus, during the preceding forty years West Virginia has experienced the benefits of true prosperity for only approximately ten years, while the rest of the nation enjoyed the fruits of prosperity approximately thirty years. Hence, it is probable (and understandable) that we are viewed by outsiders (and by perceptive, concerned West Virginian's) as being out-of-step with modern society, decades behind-the-times, and "yesterday's people", particularly with respect to the level of public services and quality of public facilities.

Additionally, students of West Virginia and Appalachia have often commented on the adverse "attitudes" of the people toward economic development. Apathy (particularly among the low-income, poorly educated groups) often is used to describe these attitudes toward change and social and economic progress. Undoubtedly, apathy exists — a cruel heritage of many years of deprivation and extreme poverty and cultural isolation uncommon to most other sections of the United States.

The two factors of a relatively substandard infrastructure and negative attitudes toward economic progress produce an atmosphere which repels investors (industries) who might be interested in relocating or expanding their plants and facilities within the State.[5]

As long as this situation remains unchanged, little pressure for or encouragement of economic development will be forthcoming from the private sector of the economy as the result of decisions which can be made autonomously in that sector. Nor should we expect to be successful in "inducing" economic growth through the use of salesmanship and similar techniques, while leaving unchanged the generally unfavorable environment of the State for potential firms and investors.

This is not to claim that West Virginia will not experience further and sustained economic growth. There has been economic growth in recent years and more is anticipated — provided that the national economy continues the rapid pace of economic activity which has characterized it during the 1960's.

West Virginia is an important producer of raw material inputs vitally necessary to feed industries which have been important in the current rapid rate of growth of the national economy.[6] However, much more stimulus than this is necessary to propel the State's economy forward with growth rates more nearly characteristic of the nation's average and to elevate the standard of living to near-parity with the rest of the nation. This impetus will not come from the private sector, unless there are important plans for industrial expansion in West Virginia not now evident or of which the writers are unaware.

If the seeds of economic growth will not be nurtured by the private sector of the State's economy, then the impetus must come from the public sector. This is the principal conclusion of an important study recently completed at West Vir-

ginia University. Indeed, this study, involving the most sophisticated projection of the West Virginia economy attempted to date, optimistically predicts an average annual rate of growth of gross state product of 4.3% between 1965 and 1975.[7]

This prediction is based upon three assumptions:

(1) The national economy will continue to grow at about the same rate as 1960-67;

(2) the federal regional programs and the Appalachian Regional Development Program will proceed as scheduled; and

(3) the State Legislature will authorize public expenditure programs adequate to support the projected expansion of the private sector.[8]

Clearly, the accuracy of the prediction rests upon the application of qualitatively and quantitatively adequate public expenditures. The warning has been issued that if even a part of these expenditures are not forthcoming, i.e. those for the East-West Appalachian highway system,[9] West Virginia's projected rate of economic expansion will not be realized.

Public expenditures (federal, state or local) have two effects on an economy, although the present concern is the West Vrginia economy. One is the **direct** effect such expenditures have on employment — those persons directly hired by government. This effect has been extremely important in recent years in contributing to economic growth and employment.[10] The other is the indirect effect of government expenditures. When goods and services are purchased directly by government, they cause incomes to rise. The spending of these incomes increases other incomes which in turn are expended, ad infinitum.

The net effect is increases in employment in addition to those resulting from the **direct** expenditures of government. When both direct and indirect effects of government expenditures are summed, it becomes evident that they have produced much of the recent economic growth experienced by the United States:

> Between 1958 and 1962, State and local government, directly and indirectly, accounted for nearly one-fourth of the increase in total civilian employment, and from 1962 to 1965, for one-third of the increase. It is estimated that the proportion will continue to rise, so that between 1965 and 1970, State and local gov-

ernment will account for over 36 percent of the increase in the civilian employment."

In absolute terms, state and local government now employ approximately 9½ million people in the United States and 94 thousand in the State of West Virginia."

However, the aspect of particular significance for a state such as West Virginia is the effect of public expenditures on changing — improving — those parts of the infrastructure which are not productive of new, and otherwise not obtainable, investments in the private sector and changing negative attitudes about further economic development. In this respect, not all governmental expenditures are equally productive. Some will generate an array of both direct and indirect benefits. Others will produce a relatively unproductive ratio of benefits to costs.

Ideally, the approach to overall State government expenditures policy would include the calculation of cost-benefit ratios for all conceivable combinations of expenditures classified by governmental function, geographic location of expenditure, unit and level of government making the expenditures, and size of expenditure.

If this could be done, (it would be an extremely difficult, if not impossible, task given the present availability of data and research techniques[13]) the end product would be a "map" (profile) which public officials could use for guidance in making decisions about public expenditures.

If the dictates of the "map" were strictly adhered to, every expenditure made or influenced by, say, state government would make the maximum contribution to balanced economic growth. Although state government has a prime interest in overall economic development and rapid economic growth, there are other noneconomic state responsibilities which are also important. So a "map" of the relative cost and benefits of alternative expenditures probably should not be followed to the exclusion of all other decision-making tools.

However, if such an analytical management tool were available, at least the economic costs incurred through departures from the "map" could be calculated and better judgements could be made about the wisdom or folly of state government expenditures weighing both economic and extra-economic factors.

In the absence of a cost-benefit map or profile constructed from empirical data, public expenditures decisions must be based on informed, considered judgements, although these may and should be influenced and reinforced by data. Presumably, such judgements would be based upon clearly identifiable and justifiable goals.

There is growing agreement among West Virginians that both the total and quality of the State's economic and social life need to be elevated and then maintained at high and sustainable levels. Many people, but particularly the more responsible leaders, agree that the major goal of our economic and social purpose is to promote maximum levels of production, income and employment, and to have these distributed as widely and as equitably as possible.[14]

To achieve such optimal levels of economic and social development, two basic approaches can be used. One would stress a balanced expenditure program spanning a number of functional program areas (e.g. welfare, roads, education, health, etc.), with geographical concentration in a comparatively few areas in order to obtain the maximum benefits from the economies of scale.

Concentration of expenditures in those areas with real potential for growth is dictated by the view, widely held among economists, that not **all** sections of a state (especially West Virginia) — or country can be made economically viable; therefore, social welfare can be maximized by concentrating expenditures on those areas with the highest growth potential[15] Balance among functional program expenditures is suggested by the recognition that the process of economic growth is a very complex phenomeon and a product of a battery of publicly provided facilities and services as well as private entrepreneurial abilities.[16]

The other approach is based on recognition of the point that not all publicly provided goods and services make an equal and measurable contribution to economic growth. Therefore, in a state like West Virginia which has relatively limited dollar resources, (although not as limited as present tax policy would suggest), emphasis should be placed on public expenditures which seem to offer the most promise for economic growth as "starter mechanisms".

There are those who feel that the economy of West Virginia is not unlike that of the undeveloped countries. It is felt that a crash investment program (Leibenstein's "critical minimum effort") must be launched in a few critical functional program and geographic areas.

By "crash" investment program we do not mean an accelerated public works program offering only short-run benefits for the area, and often not reaching those people most desperately in need. Instead we refer to a true investment program which yields measurable benefits (direct and indirect) to all the people in the State.

West Virginia too long has been content to live from day to day without the benefits of long-range planning and investment in those economic and social systems that yield a hierarchy of benefits to the people. Special efforts should now be made to determine both the factors leading to "takeoff" and and the sources of investment funds (tax revenue) to insure economic growth.

What types of expenditures offer the most promise as "starter mechanisms" to best assure "takeoff" for West Virginia's economy? With respect to this state, the transportation system, particularly modern, high-speed highways, is frequently viewed in this manner.[17] Others have suggested that the key area may be "manpower development," particularly the general area of education and training.[18] For example, Edward Denison has shown that increased education is "one of the largest sources of past and prospective economic growth," in addition to being "among the elements most subject to conscious social decision".[19]

And T. W. Schultz has pointed out that "investment in human capital accounts for most of the impressive rise in the real earnings per worker in Western countries."[20] Numerous other authorities on the problems of Appalachia and West Virginia have argued that the foremost need is a comprehensive and effective system of public education with adequate financing.

In some respects, this is an oversimplication of the matter, since no serious student of the State's economic development problems has suggested a single approach to improve its economic condition. Nevertheless, various people have placed emphasis on limited functional areas of concentration of public

expenditures in order to do the most good in terms of economic development.

In all probability, somewhat too much confidence has been placed on the role of transportation and other economic overhead capital in the future economic development of the Appalachian Region and West Virginia.[21] Citing France's program to promote the economic development of lagging regions through the expansion of transportation, communications, education, vocational retraining and other public overhead facilities, Professor Hansen in a recent article concerned with Appalachian development policy noted that commercial and economic growth continued to be directly related to existing areas of commercial and industrial importance. Thus, despite government efforts to develop lagging regions, firms continued to locate primarily in regions which offered external economies not available in lesser developed areas.[22]

At the same time, it is impossible to conceive of a well-developed state which does not have a good primary and secondary road system. And it is equally as impossible to imagine a well-developed and progressive state which does not have good education and health systems.

The key question is how well West Virginia is doing in the allocation of its resources to either a balanced or concentrated functional program designed to provide the maximum impetus for economic growth. Either a balanced functional program with geographic concentration or a concentrated one with geographic concentration or dispersion would contribute something to economic development, even though the relative efficiencies of each method and the contributions of each method to long term economic growth might be open to debate. Unfortunately, State government expenditure policy in West Virginia corresponds to neither of these alternative approaches.

Perhaps the most thorough analysis of public expenditures in West Virginia, done by Professors Roy W. Bahl and Robert J. Saunders,[23] was primarily concerned with the expenditures of government at the state level, since governmental expenditures in the State are concentrated there. They attempted to determine whether the State's governmental expenditures policy was equalizing the benefits of governmental expenditures among all of the areas of State or if such expenditures

were designed to trigger the growth of certain urban areas. Their principal finding was:

> . . . higher levels of per capita government spending occur in counties with lower per capita incomes. The effects of this policy have been an 'overequalization' within the State, and possibly an increasing disparity in public service levels between West Virginia and the rest of the country.[24]

> The general conclusions of their research were:
> It has been shown that (a) State policy in West Virginia has dictated an equalizing distribution of public sector activity and (b) a combination of legal restraints, low fiscal capacity, and an absence of a strong resident preference for public goods has constrained urban public serives to a relatively low level.[25]

Clearly, therefore, public expenditures policy in West Virginia has not been specifically formulated for the purpose of accelerating the State's economic growth. Since practically no one who has seriously studied the question believes that economic development is possible for the entire State, particularly the rural areas, and since it appears there is no possibility of achieving more substantial economic growth without (more extensive) governmental action, the solution to West Virginia's economic problem must come from a State government expenditures policy which concentrates on the most promising areas of the State.[26]

Programs which concentrate on geographical areas must be supplemented by a policy placing special emphasis on those functional areas which are most productive and make the ...gest contribution to economic growth. The present expenditures policy must be rigorously modified or abandoned, if economic development is viewed as an important goal.

Before an expenditures policy can be formulated to forcing economic growth, two questions require answers: **where should expenditures be concentrated?** Since several studies have been done in this area, the answer to the question is readily available. Five of the most promising areas of the State are the Eastern and Northern Panhandles, the Kanawha and Ohio Valleys, and the Morgantown-Clarksburg-Fairmont area.[27] This, of course, is not to suggest that the rest of the State should be ignored. But State government expenditures should be concentrated in

these areas to the extent politically and morally feasible. This question is beyond the scope of this paper.

In what functional areas should the expenditures of State government be concentrated? As indicated above, this question has not been completely answered in scientific terms. Nevertheless, public expenditure policy will have to be formulated, and as is often the case, decisions will be based upon the research that has been completed. In addition, the experience of other somewhat simiar states will assist those in judgemental decision-making positions.

One way of approaching this issue is to speculate about the effects of a sudden increase in the rate of economic activity in West Virginia. It is very probable that the added demand for labor resulting from the acceleration in economic activity would focus on the need for highly educated and trained workers. This follows from the observation that pronounced economic expansion would be based upon using modern technological processes.

It is unlikely that new private investment, for example, would be based on the technologies of the 1930's, 40's or 50's. even though thousands of workers—especially the unskilled and semi-skilled—are still employed in industries in other states based on technologies of these, or earlier periods. If pronounced economic growth were to occur in West Virginia, it would be based on the technological knowledge of the 1960's.[28]

However, since a disproportionately large part of West Virginia's labor force is relatively uneducated and untrained, and a disproportionately large part of its population is not in the labor force or only marginal participants in it (because of such factors as old age and physical and mental disabilities), sudden quickening in the pace of economic activity would rapidly deplete the supply of suitably qualified labor[29]

Supporting evidence for this position can be gained from the experience of other states in the Appalachian Region. South Carolina, for example, moved into an economic growth phase several years ago and then encountered labor supply difficulties.

> Indications are that continued rapid industrialization will be obtained with increasing difficulty. South Carolina may now have reached a point talked about for some years: the point where it is not only socially

> and politically but also economically necessary to extend our educational efforts. We must upgrade and educate many persons who now border on the unemployable.[30]

Similar problems have been encountered in North Carolina,[31] Kentucky,[32] and one area in West Virginia[33]

If West Virginia's economy did expand suddenly, one of of two conditions would probably develop:

An effort to attract workers from other states. This by itself is not undesirable in order to continue the economic expansion, except that if it occurred many native West Virginians would not share in the newly obtained economic progress. Humanitarian and equity considerations dictate that the native residents of the State should not be bypassed. They should not be lost among figures which indicate lower rates of unemployment and higher per capita incomes due to increased migration into the State and not to any lessening of the problems of West Virginians.

Clearly, expenditures for manpower development should receive the highest priority by the government of West Virginia. Furthermore, there are reasons for believing that the long-run answer to manpower development is general education.[34]

This should be qualified, however. General education is not the solution for many adult West Virginians experiencing economic distress because some of these people are not able to be, and perhaps should not be, in the labor force for one reason or another.[35] They can be helped only by welfare programs. Others can be helped best through occupational training programs.

But, since technology is continually and rapidly changing and placing more demands on workers, in terms of occupational skills, and social and psychological skills, occupational training **per se** is not **the** solution either for older workers or young people not in the labor force. For young people particularly, as much general education as possible is the most productive long-run approach to the creation of a labor force able to accommodate economic and social change with a minimum of trauma, although other programs may be needed for the short-run.[36]

In addition to its efficacy in facilitating economic development through the provision of an occupationally and geo-

graphically mobile labor force, a quality system of general primary, secondary, and higher education—is the key determinant of the economic attractiveness of a state or area.[37]

The middle-class managers of today's sophisticated industries are deeply concerned about the intellectual and social development of their children. There is little doubt that this is their most important goal. They are most reluctant to live in an area which may not provide their children with the full scale of social and economic tools necessary to effectively compete with the children of other middle-class families residing elsewhere.

Such people are not particularly loyal to a state or community. Their primarily loyalty is to a way of life for themselves and their families.[38] Satisfaction of some of the needs, perhaps many of the needs, of such people can be accomplished through travel to major population centers, but the education of their children cannot be accomplished in this way since it would require premature dissolution of the family.

The general education system, thus, is of paramount importance in two respects: it produces an adaptable labor force and population; and it acts as an inducement for the middle and upper-class managers of industry and other professionals to live in the State. This fact cannot be, and is not, ignored by top management in making locational decisions.

In order to dispel a possibility of confusion, it is admitted that properly designed programs of technical and vocational education have some utility. They are useful for continuing some people in the general education system who might otherwise drop out. They are useful for returning drop-outs to the general educational system. And, they are useful for preparing a rather small number of people for work who cannot adjust to the general educational system.

However, the problem of West Virginia, and the United States in general, will be that of adjusting to change among the types of workers needed. Given the dynamics of the United States society and economy, according to J. W. Gardner, people must be prepared for life in terms of "fundamental fields of knowledge . . . and must be prepared to cope with change."[39] The solution to this problem will be found in terms of general education.

At the same time, there are certain changes of thinking among some authorities in vocational and technical education which indicate that the differences among vocational educational, technical, and general education may be much smaller than generally recognized.[40]

With the increasing demands for a flexible work force in the United States as well as in most western European countries, there is a move to broadening the vocational educational program and reduce further the differences between vocational, technical, and general education.[41]

But by the same token, there are reasons to question the value of proposals to solve this, or any other state's manpower problems, with relatively unconsidered programs of vocational or technical education. Preparation for the world of work involes many dimensions of human behavior, of which occupational skill is only one, and probably not even the most important at that. This suggests the conclusion that before any substantial investments are made in vocational and technical education programs apart from the general education system, stronger efforts ought to be made to improve the general education system in terms of those now in it and those who should be in it.

A system of quality general education, however, is not the entire answer to the economic and human resources development problems in West Virginia. The educational system is inextricably linked with the welfare, health, roads and taxation systems. These will be examined in some detail.

A study of the public welfare program shows that there are few if any state Departments of Public Welfare that are fulfilling the objectives for which the Department of Welfare was created.[42] Few still have the support or the understanding of the people, and probably none are noteworthy for their operational efficiency or their deep concern for the total emotional and physical well-being of their clients. All this is no secret to the clients, the public, and certainly not to most of those who are attempting to administer the myriad of welfare programs. In most cases, welfare administrators are their own most severe critics.

The public welfare system too long has offered **custodial** care when **service** was called for. Although there is a small break in this trend, principally as a result of the OEO Title V

Work and Traning Program, this preoccupation with the maintenance of people in poverty, perpetuating the conditions of people at hopeless, subsistence levels of existence, continues almost unabated.[43]

It is clear that an enlightened public welfare system is sorely needed in West Virginia at this time. A progressive public welfare system should complement the other societal systems concerned with human resources development. This means that all public welfare programs should be aimed at the highest common denominator and that this aim be reflected in the types of programs, expenditure levels, and adequacy of personal benefits to welfare clients. The welfare department in West Virginia (and everywhere else) should make it known that social welfare assistance is a **right**, not **charity**, and that humane justice demands proper consideration for the less fortunate and both the temporarily and the more permanently poor.[44]

A progressive, modern public welfare system should incorporate programs of a **curative** and a **preventive** nature.

The focal point of the **curative** programs would be welfare clients in West Virginia who can be upgraded through such service programs as education and manpower retraining and equipped to enter or re-enter the job market and become productive, respected members of society.[45]

The preventive programs would be principally concerned with the children of clients.

This concern would be reflected in the insistence on a respectable level of living for the welfare families so that the vicious circle of poverty, restricted choices, limited education, unmarketable skills—etc., could be broken.

One of the primary objectives of a progressive public welfare system should be the reduction to the very minimum of the number of people on the welfare roles. This reduction should be achieved not through regulations which exclude those desperately in need, for this would be a false solution.

Instead, reduction should take place through reaching as many people as possible with programs aimed at upgrading them so that they can make the transition from the world of welfare to the world of work with the dignity, respect, opportunities and improved living conditions that this transition brings. A national policy for human resources or man-power develop-

ment must include programs which reach the hardcore unemployed and other public welfare recipients.

The over-riding responsibility of the West Virginia Department of Welfare should be the provision of **services** to all clients. For those with potentially marketable skills, innovative and imaginative programs must be developed to assist them in making the transition into the world of work. Perhaps the most important welfare programs will be those that seek to break the vicious circle of poverty within families.

Without the keystone programs aimed at facilitating the movement of employable welfare recipients into the world of work and the provision of services to those who are unemployable, however, all evidence points toward a continuance of past and present practices, with all the human tragedies this involves.

There are those who contend that, since large sums of federal monies are channeled into state systems such as the West Virginia Department of Public Welfare, the State has little power to engage in reform. However, several programs are neither federally-financed nor controlled. Reform should be a prime concern in these areas.

Even where federal financing and control are prime considerations, the attitudes and the opinions of the state administrators can effectuate improvement because they can be primary catalytic agents assuring the continuation of worthwhile programs and reforms in all areas that are ineffective.

It is at this point that the tie-in with the general education system becomes very evident. Regardless of the quality of welfare programs and the volume of expenditures, there will be little chance of preventing expansion in the number of welfare clientele unless the general education system gears up and takes special steps, with imaginative and innovative programs, to reach, teach, and inspire the children of the disadvantaged.[40]

Much of the same logic applies to the area of medical services and the health industry. It is sadly true that, given the shortage of medical manpower combined with the lack of medical facilities and the rurality and the relative inaccessibility of much of the State, an ounce of prevention has to be not only the least expensive, but possibly the only feasible solution to West Virginia's health problems.

Again, we are made cognizant of the critical role the general education system must play in the dissemination of information about health. An appreciation of the value of good health and a knowledge of the steps to take to insure good health must be instilled in the people while very young. Only through education, especially the general education system, can good health habits be initiated among many people.

Good health must become a habit not an accident. It is too important to be left to chance. The recent proclamation by the President attests to the critical importance of preventive medicine in the health program of an affluent United States[47] It is even more important in a somewhat nonaffluent state like West Virginia.

A brief comment should be made about the tie-in of the general education system with another functional expenditure area.

As was mentioned, a quality, modern system of rapid transport and secondary roads is essential for the most rapid economic growth of any state or region. But given the state of knowledge about industrial location and the relative importance of location factors, we know that neither excellent roads nor the whole array of economic overhead capital features will assure the most desirable economic growth for an area[48] Still, few can doubt the critical need for a good road system in the overall economic development of the State.[49]

The primary concern of State government, then, should be how best to assure a modern road system and its continued maintenance. The answer is clear: positive attitudes and public support for continually expanding expenditures for more and better roads and their maintenance will be forthcoming only when there is the widest possible dispersion in the benefits (and the cost) of those roads among all income groups within the State.

Since it is evident that the higher income groups would (and do) receive a greater variety of benefits from a quality road system, it is not surprising that a recent study showed that these groups have a more positive attitude to government expenditures and tax increases.[50]

This would be an expected conclusion of a study of public attitudes toward government expenditures and taxes. Not only are the benefits more measurable but they are more numerous

for the upper-income groups. No doubt one of the significant reasons for this is the positive correlation of education and income.[51]

We are again brought abruptly face-to-face with the role of education. Only through a good educational system which stresses preparation for a complex, changing world can the benefits of government expenditures be clearly demonstrated to the public. Indeed, only through a demonstration of the long and short-term benefits of government expenditures can the necessary support for even modest road expenditures be guaranteed.

This is a matter of attitudinal change or the formation of proper, reasonable attitudes. Since many of our most important attitudes are formed at an early age (and often become reflex thinking in later adult life) it falls to the general education system to prepare the people to be thoughtful, responsible, concerned participants in a modern society. Social overhead capital (schools, health, welfare) and economic overhead capital are two sides of the same coin. Available evidence points toward the need for concentration of investments in social overhead capital if there is to be acceleration of economic growth in West Virginia.[52]

The extent to which the needs of the education, health, welfare and road systems will be met by the State's government is directly dependent upon the extent to which adequate revenues can be raised through an equitable, progressive system of taxation.

If every effort is made to educate and fully inform the people as to why additional taxes and expenditures are needed, and if in turn expenditures are made wisely, there is a greater likelihood that widespread public support can be generated for these increased taxes and expenditures.

If economic progress comparable to that of the nation is to be realized, there is no alternative to a highly rational government expenditures program together with all the accompanying requirements. It is probable that this will require constitutional revision and major reorganization in our State and local government systems.

There is little reason to believe that the federal government will greatly increase its expenditures for the State's economic and social development. While many federal programs

will continue to be very beneficial to the State, the crucial fact is that, while per capita federal expenditures for defense are about $357, West Virginia's allocation of federal defense expenditures is only about $76 per capita.[33] No doubt it would not be equitable or feasible to distribute federal defense expenditures on a per capita basis because of the nature of the contracts and the technological requirements, as well as the differing ratios of per capita federal tax payments to per capita federal expenditures by state; however, it would appear that a relatively few states are receiving disproportionately large shares of federal defense expenditures and that, on a per capita basis, West Virginia is being short-changed.

In one sense, then, this could be viewed as a net outflow of funds to the federal government. Frequently, we are led to believe the opposite by repeated references to the multitude of federal programs (such as the Appalachian Development Program) which supposedly blanket the State.[34] In fact, there is some evidence to show that certain federal expenditures exert a dampening effect on West Virginia's economy. This is not an acceptable arrangement.

The State might well have a right to much more than its per capita share of federal funds because many areas of the State are economically depressed. Furthermore, there is no reason to believe that the federal government can assure the most efficient allocation of these funds.[35]

It is understood that we must construct more and better highways. But what about the distribution of benefits from highway expenditures? Interstate highways are vitally important for the future economic development of West Virginia. but one could say that their value is greater to the nation than to West Virginia.

This state must carefully determine the most productive uses of its limited resources. As pointed up in the proceding discussion, particular emphasis should be placed on the educational, welfare, health and road systems. To achieve high standards istrative reorganization and a revision of the State's antiquated constitution. While most of the dollar costs for the improvement and expansion of these programs must be borne by West Virginia, more emphasis should be placed on obtaining additional Federal funds to support Federal programs in the State.

III. Summary And Conclusions

A healthy private sector is certainly a prerequisite for the economic health of any state or region. Business investment in new technology, capital goods, and research and development, has been largely responsible for our present economic eminence among the world powers. But within the last half-decade innumberable important research studies have pointed up the vital role of human resources in the nation's rapid rise to economic supremacy, a role determined by the number and quality of societal systems concerned with social overhead capital.

The most promising avenue to accelerated economic growth in West Virginia is investment in social overhead capital through public expenditures by the State.[56] These expenditures must be allocated carefully to the geographical and functional program areas where rapid growth is more likely to occur.

The geographic areas where public expenditures should be concentrated include the Eastern and Northern Panhandles, the Ohio and Kanawha Valleys, and the Morgantown-Fairmont-Clarksburg area[57] The functional areas of education, welfare, health and roads should receive special emphasis.[58]

Implementation of this program would require a re-allocation of tax revenues as well as additional tax monies. However, new expenditures policy should provide an acceleration in economic growth so that the tax base can expand sufficiently to meet the need for new revenues.

A more rational system of taxation based upon the tenets of equity, adequacy and convenience would be necessary to provide the additional revenue needed to support expanded and upgraded public services. While not dealt with in detail in this paper, the tax system of West Virginia should be based upon economic power and the ability to pay principle and the simplest and most direct application of this principle is a tax program based upon the growth and size of income and profits. An increase in State income and sales taxes, with proper exemptions, would fulfill the three important tax canons of equity, adequacy and convenience.[59]

There can be no doubt that the State will have to make a major fiscal effort if rapid economic growth and the concomitant social amenities are to be assured. A supreme effort should be made to more fully engage the fiscal strength of the federal

Contrary to popular opinion, the federal government is not subsidizing the West Virginia economy as heavily as many people believe. In fact, the claim could be made that, in view of the State's depressed condition for over four decades, and in view of the State's contributions to the national economy, West Virginia's economy should be much more heavily subsidized than the economies in other states."

The federal government should be informed that it has a greater obligation to West Virginia than it has fulfilled. Furthermore, federal funds should be incorporated into the State's comprehensive development plan and not into the overall plans of the federal government through programs which only incidentally deal with the specific needs of West Virginia.

FOOTNOTES

1. **West Virginia Employment Trends** (June, 1968), and **West Virginia Labor Market Digest** (June, 1968), West Virginia Department of Employment Security, Charleston.
2. Supporting data can be found in Federal Bank of Richmond, **Monthly Review** June, 1968) pp. 11 and 12.
3. **Digest of Educational Statistics** (1967 Edition), U. S. Department of Health, Education and Welfare, Office of Education, Table 74, p. 61.
4. For a discussion of this, and related problems see David A. Grossman and Melvin R. Lewin, "The Appalachian Region: A National Problem Area," **Land Economics** (May, 1961) pp. 133-41.
5. See, for example, E. H. McCaffery, "How General Electric Decides on a Plant Location," Issue No. 28, Appalachian Area Center, Keyser (June, 1968).
6. William H. Miernyk, "Appalachia's Future: The Economic Challenge," Extension Reader Series No. 177, West Virginia University. See also Miernyk, "West Virginia: An Economic Analysis," **West Virginia Progress,** (July, 1967).
7. In terms of 1965 prices.
8. William H. Miernyk and Kenneth L. Shelhammer, "The Structure of the West Virginia Economy of 1975: A Preliminary Forecast," (May, 1968) Regional Research Institute, West Virginia University.
9. Miernyk, "Appalachia's Future: . . . , " op. cit., p. 3.
10. Joseph C. Wakefield, "Employment Effect of State and Local Government Spending," **Monthly Labor Review** (August, 1967) pp. 15-17.
11. **Ibid.,** p. 15. See also Howard V. Stambler, "State and Local Government Manpower in 1975," **Monthly Labor Review** (April, 1967) pp. 13-17; and Joseph C. Wakefield, "Expanding Functions of State and Local Governments, 1965-70," **Monthly Labor Review** (July, 1967) pp. 9-14.
12. **State and Local Government Employment and Payrolls,** U. S. Department of Labor, Bureau of Labor Statistics, Washington, D. C. (June, 1968). This is the one sheet letter report (M/L 328) which is published monthly by the U. S. Department of Labor; **West Virginia Employment Trends** (June, 1968) p. 2.
13. Some work along these lines is being conducted by the Office of Research and Development of West Virginia University's Appalachian Center. It is, however, very preliminary.
14. For a discussion of this see W. Braddock Hickman, "Preconditions of Social and Economic Progress," **Economic Review** (June, 1968) pp. 3-8, Federal Reserve Bank of Cleveland.
15. For a discussion of "growth points" in economic development, see Mirza Amjad Beg, **Regional Growth Points in Economic Development,** Bureau of Business Research and the Office of Research and Development, Appalachian Center, West Virginia University, Economic Development Series No. 8, December, 1965. The importance of the "growth point" concept is reflected in the comprehensive development plans of the Appalachian States and is official policy of the Appalachian Regional Commission.
16. For a good discussion of what entrepreneurial and management abilities can mean to an area's social and economic development, see Stanley F. Reed, "Entrepreneurship and the Depressed Area," **Yale Review** (Autumn, 1964) pp. 31-40.
17. See William H. Miernyk, "Appalachia's Future: . . . , " op. cit. See also Carl W. Hale, "The Mechanism of the Spread Effect in Regional Development," **Land Economics** (November, 1967) pp. 434-444.
18. Frederick A. Zeller and Robert W. Miller (editors) **Manpower Development in Appalachia** (New York: Frederick A. Praeger, Publishers, 1968).
19. Edward Denison, **The Sources of Economic Growth and the Alternatives Before Us** (New York, New York: Committee for Economic Development, 1962), p. 74.
20. Theodore W. Schultz, "Investment in Human Capital," **American Economic Review** (March, 1961) p. 1. See also Andrew Watson and Joel Dirlam, "The Impact of Underdevelopment on Economic Planning," **Quarterly Journal of Economics** (May, 1965) pp. 167-194.

21. Strong claims have been made that transportation systems **follow** economic development. See Robert W. Fogel, "A Quantitative Approach to the Study of American Economic Growth," **Journal of Economic History** (June, 1962); and Paul Cootner, "The Role of Railroads in United States Economic Growth," **Journal of Economic History** (December, 1963.) For a statement to the contrary see Carl W. Hale, "The Mechanism of the Spread Effect in Regional Development," **Land Economics** (November, 1967) pp. 434-444.
22. Niles M. Hansen, "Some Neglected Factors in American Regional Development Policy: The Case of Appalachia." **Land Economics,** XLII (February 1966) pp. 6-7.
23. See their "The Role of State and Local Government in the Economic Development of Appalachia," **Land Economics** (February, 1968) pp. 50-58.
24. **Ibid.** p. 55.
25. **Ibid.** p. 57.
26. For an example of the reasoning which produces this conclusion, see "Remarks by John L. Sweeney" presented during the Southern Regianal Board Seminar on Appalachia, West Virginia University, **Extension Reader Series,** No. 178. See also, William H. Miernyk, "Appalachia's Future: . . . ," op. cit., p. 7.
27. See, for example, William H. Miernyk, "West Virginia: An Economic Analysis," op. cit., p. 10.
28. West Virginia is not really different from other states in this respect. Economic growth of the quantity needed to propel West Virginia much closer to the national standard would be profoundly different from the present structure of the State's economy. The West Virginia economy traditionally has been based upon a few industries, such as mining, and the type of manufacturing which is relatively unsophisticated in its labor requirements.
29. If there were a sudden quickening in the pace of economic activity in West Virginia, it is most unlikely that a large block of suitably qualified manpower could be drawn from the ranks of the unemployed or welfare recipients. Several categories of welfare recipients are physically and otherwise unable to become participants in the labor force. Currently, there are approximately 6,093 people participating in the Welfare Department's Work and Training Program (ADCU-OEO Title V), the most employable category of those on welfare. (See West Virginia Department of Welfare, Welfare Statistics, (May, 1968) P.A. Table 12A, p. 17. However if one can generalize from national statistics, (See Edmund K. Falter-Mayer, "A Way Out of the Welfare Mess." **Fortune** (July, 1968) pp. 62-67 plus), less than one third of this group can become employable.
30. A. C. Flora, Jr., "Education and Economic Progress in South Caroline," **Business and Economic Review** (January, 1966) University of South Carolina, p. 11.
31. "North Carolina Contends with a Manpower Shortage," **Appalachia,** (February, 1968) pp. 6-8.
32. John L. Fulmer and Don M. Soule, "Why Kentucky Ranks Low Among the State in Per Capita Personal Income," **Research Briefs,** Bureau of Business Research, University of Kentucky (November, 1966) p. 23.
33. "West Central West Virginia Area Manpower Reuqirements Survey to 1972," (November, 1967) Parkersburg Center, West Virginia University, p. iii.
34. Frederick A. Zeller and Wil J. Smith, "Manpower Problems and Preparation for Life and the World of Work in Appalachia" Office of Research and Development, West Virginia University, 1968. See also, Garth L. Mangum, "Manpower Needs and Development: Today and Tomorrow," and "Manpower Implications of the Appalachian Regional Program," **Manpower Development in Appalachia,** Miller and Zeller (eds.) New York: Praeger, 1968) pp. 6-37.
35. We should recognize that there are many people, especially adults, experiencing economic distress in West Virginia who the economic system will never be able to reach with jobs. Changes in the size of certain welfare categories are not directly correlated with fluctuations in the economy. With certain given and expanding categories of public welfare (i.e. OAA, AB, APTD) and with the lack of potential employables in the AFDCU group (see Edmund K. Falter

Mayer, **Fortune,** (July, 1968) pp. 66-67 plus) the logical alternatives would be some type of decently adequately guaranteed annual income for adults and an all-out, imaginative, adequately-financed effort to realign the lives of the children through the general education system.

36. For a good discussion of this role of general education (schooling) see Theodore W. Schultz, **The Economic Value of Education** (New York: Columbia University Press, 1963) esp. pp. 40-41. Also, Ralph W. Tyler, "Purpose, Scope and Organization of Education," Ch. 2 of **Designing Education for the Future No. 2,** Edgar L. Morphet and Charles O. Ryan (eds.).
37. The significance of education as a factor of industrial location was pointed up in a recent detailed study prepared for the Appalachian Commission, **The Appalachian Location Research Studies Program: Summary Report and Recommendations,** Contract No. C-273-66 (Neg.), The Fantus Company, Inc., Fantus Area Research Division, December, 1966.
38. We are a highly mobile society. Increased mobility through efficient systems of transportation and communication have and will continue to reduce loyalties to a given state or community. It should be our goal to establish a social environment that will attract self-oriented, dynamic, mobile people who are dissatisfied with the status quo. In pursuing their own self-interest there is no doubt that they would benefit the state as well through new production and tax payments.
39. Gardner, **Excellence,** (New York: Harper and Row, 1961).
40. For example, see Nevin R. Frantz, Jr., "The Cluster Concept as a Program in Vocational Education at the Secondary School Level," **Research in Vocational and Technical Education** (Madison: Center for Studies in Vocational and Technical Education, University of Wisconsin, 1967) pp. 83-94.
41. United State Department of Labor, **Manpower Report of the President,** April, 1968. See the chapter on bridging the gap from school to work, esp. p. 118.
42. In recognition of the serious problems facing the public welfare system, a special task force was assigned to study our system of social welfare. Its findings and recommendations are thought-provoking and challenging. See the report of the Advisory Council on Public Welfare to the Secretary of Health, Education and Welfare, **Having the Power, We Have the Duty,** U. S. Department of Health, Education and Welfare, June, 1966.
43. We do not mean to intimate that the Title V Work Experience and Training Program was a blazing success. The fact that the program has been overhauled and placed under the administration of the U. S. Department of Labor and the Employment Security Commission (as WINS) suggests this is not the case. There are those who believe that Title V fell short of success because its goal was too ambitious. See Sar A. Levitan, **Antipoverty Work and Training Efforts: Goals and Reality,** Policy papers in Human Resources and Industrial Development No. 3, The Institute of Labor and Industrial Relations, the University of Michigan-Wayne State University, ch. 4 (August, 1967) pp. 67-109. However, Title V exemplified the much needed emphasis on service and assistance to recipients to achieve a modicum of economic independence.
44. Recently, there has been a great deal of interest in the participation of welfare recipients in the decision-making aspects of programs designed to help them. For example, see Jerome L. Schwartz and Milton Cherin, "Participation of Recipients in Public Welfare Planning and Administration," **The Social Service Review,** Vol. 41, No. 1 (March, 1967) pp. 15-22 and Charles I. Schottland, "The Hungry Can't Wait," **The Nation,** Vol. 204, No. 21 (May 22, 1967) pp. 649-652. This interest in the participation of welfare recipients in programs deciding their collective destinies has also resulted in welfare rights organization and publications which clearly define the rights of those receiving welfare benefits. A welfare rights manual has been compiled by and distributed to welfare recipients in at least one northern West Virginia county.
45. The West Virginia Title V Work Experience and Training Program (now the **WINS** — Work Incentives Program) best exemplifies the **curative** type welfare program. This five-stage program stressing basic education, on-the-job training, high school equivalency or GFD certificate, vocational retraining and job

placement, was the first welfare program to stress personalized, individualized service to the welfare client. Perhaps WINS will more completely fulfill the ambitious goals the program set for itself.

46. There is an excellent discussion of the education problems and needs of the disadvantaged in **The People Left Behind,** A Report by the President's National Advisory Commission of Rural Poverty, U. S. Government Printing Office, September, 1967. A recent study noting the relationship between nutrition and the development of an unborn child, found that lack of proper nutrition for the mother resulted in deficient brain growth. If this is true, perhaps even good schools aren't enough.
47. **Charleston Gazette,** (W. Va.), July 29, 1968, pp. 1 and 2.
48. The Fantus Company, **Summary Report and Recommendations,** pp. 24-36, and William H. Miernyk, "Appalachian Development: The Long-run View," **Appalachia,** Vol. 1, No. 8 (April, 1968) pp. 18 20, esp. p. 20.
49. Dr. William H. Miernyk recently stated that "the program that will have the greatest long-run impact on the (Appalachian) Region is the Appalachian Development Highway System, assuming that the system, when completed, will meet interstate standards." William Miernyk, "Appalachia's Economic Future," **Appalachia,** Vol. 1, No. 10, (June-July, 1968) p. 16.
50. For example, see John D. Photiadis and Frederick A. Zeller, **Attitudes Toward State and Local Taxes in West Virginia — The Preliminary Results of a Survey,** Office of Research and Development, Appalachian Center, West Virginia University, Research Series No. 6. Also see, John D. Photiadis and Emery L. Prunty, **Factors Related Toward a Bond Issue for School Consolidation,** Office of Research and Development, West Virginia University.
51. Schultz, **The Economic Value of Education,** pp. 38-64.
52. Hansen, **Lnad Economics,** Vol. XLII, p. 9, and Miernyk, **Appalachia,** Vol. 1, No. 8, p. 20.
53. Statistics derived from **A Summary of Federal Programs,** A Report of Federal Program Impact on the Local Community, Fiscal Year, 1967, OEO Federal Information and Exchange System, and a Report from the Appalachian Regional Commission.
54. Hardly a day passes without the news media noting a new Federal grant to West Virginia. Frequent reference is made to the State's apparent inability to survive without Federal largess.
55. The recent interest in some tax sharing plan, **a la** Heller, Peckman or Lampman, indicates the concern of the states over the most efficient and equitable allocation of expenditures. It is felt that the Federal government is too far removed from the problems to fully understand them and prescribe good and workable solutions.
56. Hansen, **Land Economics,** Vol. XLII, p. 9; Miernyk, **Appalachia,** Vol. 1, No. 11, pp. 16-19, esp. p. 19, and John M. Monroe, **Transportation and the Development of Appalachia,** Conference on the Application of Engineering Technology, to the Problems of Appalachia, College of Engineering, West Virginia University (August, 1965).
57. Beg, **Regional Growth Points in Economic Development,** p. 32.
58. Michael Harrington, "The Politics of Poverty," **Views From the Left,** Jeremy, Larner and Irving Howe (eds.) (New York: William Morrow and Company Inc., 1968) pp 13-38, esp. 37; and Michael Harrington, **Toward a Democratic Left** (New York: The MacMillan Company, 1968).
59. Harold M. Groves, **Financing Government,** (New York: Holt, Rinehart and Winston, 1964) 6th Edition; James A. Papke, **Suggested Program and Outline for Study of the Tax Structure of the State of West Virginia.** (This is the now famous Papke (value added) tax study). Also see Wil J. Smith, "Value-added Revisited: Comment," **Jus Et Factum.** Vol. 1, Edition V, p. 4, College of Law Newspaper, West Virginia University.
60. Federal funds input in West Virginia has been too small and too scattered over too many functional areas to have had any significant growth effect on the State's economy. If past policy remains unchanged, Federal expenditures will continue to elevate hopes, without elevating the social and economic standards of the people.